PAUL, HASTINGS, JANOFSKY & WALKER LLP
Robert L. Sherman (RS 5520)
Rebecca Myers (RM 8437)
75 East 55th Street
New York, NY 10022
(212) 318-6000

*Attorneys for Plaintiff FragranceNet.com, Inc.*

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

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|---|---|
| FragranceNet.com, Inc.,<br><br>Plaintiff,<br><br>- against -<br><br>FragranceX.com Inc. and John Does 1-20<br><br>Defendant. | CV 06 2225 (JFB) (AKT) |

**FRAGRANCENET'S MEMORANDUM OF LAW IN SUPPORT OF ITS MOTION FOR LEAVE TO FILE ITS THIRD AMENDED COMPLAINT**

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## I. Introduction

Plaintiff FragranceNet.com, Inc. ("FragranceNet" or "Plaintiff") respectfully moves this Court pursuant to Rule 15 of the Federal Rules of Civil Procedure for leave to file its Third Amended Complaint, which is based on FragranceNet's discovery of information giving rise to additional claims against the defendant.[1] A copy of FragranceNet's Proposed Third Amended Complaint is submitted herewith as Exhibit A to the Affidavit of Rebecca Myers in Support of FragranceNet's Motion for Leave to File its Third Amended Complaint ("Myers Aff.").

## II. Applicable Standard

Rule 15(a) of the Federal Rules of Civil Procedure provides that leave to amend shall be freely granted. *See* Fed. R. Civ. P. 15(a); *see also Linder v. City of N.Y.*, 263 F. Supp. 2d 585, 593 (E.D.N.Y. 2003); *Islamic Soc'y of Fire Dep't Personnel v. City of N.Y.*, 205 F. Supp. 2d 75, 79-80 (E.D.N.Y. 2002). The decision of whether to grant leave to amend a pleading is a decision that rests within the trial court's discretion. *Evans v. Syracuse City Sch. Dist.*, 704 F.2d 44, 46-47 (2d Cir. 1983) (citing *Foman v. Davis*, 371 U.S. 178 (1962)). In exercising its discretion a court may consider "undue delay, bad faith, dilatory tactics, undue prejudice to the party to be served with the proposed pleading, or futility." *Oparaji v. N.Y. City Dep't of Educ.*, No. 03 CV 4105NGVVP, 2005 WL 1398072, at *15 (E.D.N.Y. June 14, 2005), *aff'd*, 172 Fed. App'x 352 (2d Cir. 2006) (citing *Quarantino v. Tiffany & Co.*, 71 F.3d 58, 66 (2d Cir. 1995)).

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[1] FragranceNet filed a First Amended Complaint on May 24, 2006 to add claims for copyright infringement against John Does 1-20 and to make other conforming changes. On July 27, 2006, with the consent of FragranceX.com, Inc. ("FragranceX" or "defendant"), FragranceNet filed its Second Amended Complaint to include a listing of the photographs, by product name, at issue in the copyright infringement claim.

## III. Argument in Support of FragranceNet's Request for Leave to Amend

### A. FragranceNet's Proposed Amendments are based on Evidence of Defendant's Misuse of Keywords

FragranceNet owns a U.S. trademark application for FRAGRANCENET, and as a result of its continuous and extensive efforts in marketing, advertising, and resultant sales, as well as its maintaining a high quality of retail service, FragranceNet has become one of the leading and most popular purveyors of fragrances on the Internet, and has acquired a reputation for high quality and customer service under its FRAGRANCENET mark. See Affidavit of Dennis M. Apfel in Support of FragranceNet's Motion for Leave to File its Third Amended Complaint ("Apfel Aff.") at ¶ 2. As a result, consumers recognize the FRAGRANCENET mark as identifying the retail services provided by FragranceNet. *Id.*

FragranceNet has discovered that defendant inserted "fragrance net" and "fragrancenet," FragranceNet's house mark and most valued asset, into the metatags of its Web site, including but not limited to the Web pages for defendant's women's fragrance page and men's fragrance page. Apfel Aff. at ¶ 3. Metatags are codes in the sublevel of Web pages that are invisible to the average user. *Id* at ¶ 4. They are used to provide an Internet search engine with information about the content of a page and are used to attract Internet search engines to a Web site. *Id.* Metatags provide the basis for ranking and displaying the results of a search that is conducted for a word or term contained in a metatag. *Id.* FragranceNet also discovered that when a search for "fragrance net" or other variations of FragranceNet's mark are conducted by Google's search engine, an advertisement for defendant's Web site, www.fragrancex.com, appears on the screen immediately proximate to the search results, accompanied by a link to defendant's Web site. *Id.* That form of advertising is conducted through Google's AdWords Program and the advertisements are called "Sponsored Links." *Id.*

The only way to have one's Sponsored Link appear on a search results screen is by having bid on a keyword that triggers the appearance of a Sponsored Link. Apfel Aff. at ¶ 6. Sponsored Links typically appear at the very top of the screen and also down the right side. *Id.* Internet search providers offering Sponsored Links programs, such as the AdWords Program offered by Google, permit an advertiser to specify whether the keywords it bids on should be applied to its Web site as a "broad match," "phrase match," "exact match" or "negative match." *Id.*

Google's "broad match" option is the default option in its AdWords program. Apfel Aff. at ¶ 7. Under a "broad match," an advertiser will appear as a Sponsored Link when a search is conducted (*i.e.*, when the consumer types in that word) for the keyword the advertiser paid for as well as for any plural or relevant variation of that keyword. *Id.* "Phrase match" permits an advertiser to bid on a phrase such as "designer fragrance." *Id.* The advertiser's Sponsored Link will appear whenever a search is conducted for that phrase, even if the phrase is incorporated into or is used in combination with other words, such as "bad designer fragrance." *Id.* An "exact match" will display the advertiser's Sponsored Link only when the exact word(s) is the subject of the search, not when combined with any other word(s). *Id.* A "negative match" permits an advertiser to specify particular circumstances under which a match will not trigger a Sponsored Link. *Id.* For example, if an advertiser bid on the keyword "designer fragrance" but did not want its Sponsored Link to appear when a consumer types in "bad designer fragrance," it could include a negative match for "bad designer fragrance." *Id.* Under those circumstances, the advertiser's Sponsored Link will not appear when the consumer types in "bad designer fragrance." *Id.*

Defendant has bid on certain keywords that cause its Sponsored Link to appear when a search is conducted for "fragrance net" or other variations of FragranceNet's mark. Apfel Aff. at ¶ 8. That is clear because defendant's Web site appears as a Sponsored Link when a consumer conducts an Internet keyword search, *i.e.*, types in, "fragrance net" or other variations of

FragranceNet's mark. *Id.* Defendant has failed and refused to use a negative match, a well-known and commonly used mechanism, to avoid having defendant's Web site appear as a Sponsored Link when consumers conduct a search for "Fragrance Net" or other variations of Plaintiff's mark. *Id.* at ¶ 9. Because Plaintiff does not sell any products under the FRAGRANCENET brand, consumers who conduct Internet keyword searches for "fragrance net" or other variations of FragranceNet's mark can be looking only for FragranceNet's Web site. *Id.*

Defendant knew, or should have reasonably expected, that its conduct would have the consequence of misdirecting consumers to defendant's Web site rather than to FragranceNet's Web site by providing a computer user with direct access, through a link, to its own Web site despite the fact that the consumer/computer user had typed in FragranceNet's name and was searching for FragranceNet's Web site. Defendant's conduct has caused confusion and is likely to continue to do so. *Id.* at ¶ 10. The use of FRAGRANCENET in the metatags underlying defendant's Web site to attract search engines to its Web site during an Internet search for "fragrance net" or other variations of FragranceNet's mark is likely to cause confusion among consumers and/or to deceive them into believing that defendant somehow is associated with or related to FragranceNet's retail services and/or that defendant somehow is associated with or sponsored by FragranceNet. *Id.* FragranceNet has been damaged as a result of defendant's unauthorized use of FRAGRANCENET in the metatags underlying its Web site and as a result of its bidding on, purchase and use of keywords in Google's Adwords program that defendant can control and which defendant knows will cause defendant to appear as a Sponsored Link when a consumer types in "fragrance net" or other variations of FragranceNet's mark. *Id.* at ¶ 11. Defendant's wrongful conduct has deprived and will continue to deprive FragranceNet of opportunities for expanding its goodwill, and will continue to cause it damage. *Id.*

Based on the foregoing, FragranceNet's Proposed Third Amended Complaint contains new claims for trademark infringement, trademark dilution, violation of New York General Business Law §133, state law dilution, injury to business reputation, common law unfair competition and misappropriation, passing off and unjust enrichment. FragranceNet's Proposed Third Amended Complaint also contains non-substantive conforming changes.

**B. FragranceNet Has Not Engaged In Undue Delay, Bad Faith or Dilatory Tactics In Presenting This Amendment**

FragranceNet has not unreasonably delayed in seeking leave to amend. This action is still in its incipient stages and a scheduling order has not yet been entered. Once FragranceNet became aware of the grounds for amending its complaint, it promptly communicated with defendant, through counsel, requesting a stipulation to its filing an amended complaint. Myers Aff. at ¶ 2, Ex. B (March 14, 2007 letter from R. Myers to D. Rabinowitz). Defendant refused. *See* Myers Aff. at ¶ 3, Ex. C (March 16, 2007 letter from D. Rabinowitz to R. Myers). Thereafter, the parties requested a pre-motion conference and FragranceNet made some revisions to its proposed amended complaint based on its counsel's further investigation. Myers Aff. at ¶ 4. The parties jointly requested that the pre-motion conference be adjourned so that defendant could consider whether it wished to oppose the filing of the proposed Third Amended Complaint. Myers Aff. at ¶ 5, Ex. D. (March 18, 2007 letter from D. Rabinowitz to Hon. Joseph F. Bianco). Defendant, however, maintained its refusal to stipulate and a pre-motion conference was held on April 25, 2007, at which time a briefing schedule was set. Myers Aff. at ¶ 6.

**C. This Amendment Cannot Prejudice Defendant Because Defendant Knew of Its Own Conduct**

Defendant cannot disclaim knowledge of it own conduct in bidding on certain keywords that cause its Sponsored Link to appear when a search is conducted for "fragrance net" or other variations of FragranceNet's mark, and using FragranceNet's mark in the metatags underlying its

Web site. Thus, defendant cannot claim any prejudice because the amended claims are the result of defendant's own wrongdoing. Allowing the amendment will not adversely affect the diligent prosecution of this action and will not prolong discovery inasmuch as a scheduling order has not yet been entered.

**D. FragranceNet's Amendment is Not Futile**

FragranceNet has been informed that defendant will oppose the proposed amendment on the ground that allowing the proposed amendment would be futile. It is expected that the Court will focus on the issue of keyword advertising and whether the payment by defendant that allows a consumer's query that uses FragranceNet's mark to result in defendant's appearing as a Sponsored Link constitutes "use" of Plaintiff's mark within the meaning of the Lanham Act. There is a developing body of case law that addresses that precise issue. *See Buying for the Home, LLC v. Humble Abode, LLC*, 459 F. Supp. 2d 310, 321-22 (D.N.J. 2006) (containing a survey of cases that reach various results).

No court in this Circuit has ever decided the issue on a full record; rather, those few courts that have done so have ruled on a motion to dismiss or in the context of a preliminary injunction. This court should allow the action to proceed to a full record and not deny FragranceNet its day in court.

FragranceNet does not sell any products under the FRAGRANCENET mark. Accordingly, unlike many if not most of the other decided cases, a consumer that types in plaintiff's mark is not merely looking for all Web sites that sell that brand, he or she is looking for plaintiff's Web site and only plaintiff's Web site.

The situation is not unlike traditional "passing off" cases in which a *consumer* asks for a product by brand name but is given a product produced by another.[2] The defendant there does not literally *use* the plaintiff's mark; the consumer does. Yet no one can deny that such passing off is a form of trademark infringement. The same is true here.

Finally, there is no basis to deny plaintiff's amendment with respect to those proposed claims that do not have a "use" requirement as one of their elements.

### 1. Second Circuit Case Law Does Not Bar FragranceNet's Trademark Infringement Claims

A plaintiff must allege the following factors to successfully assert a claim for trademark infringement: (1) plaintiff has a valid mark entitled to protection under the Lanham Act; and that (2) defendant has used the mark; (3) in commerce; (4) in connection with the sale or advertising of goods or services; (5) without plaintiff's consent. *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400, 406 (2d Cir. 2005), *cert. denied*, 126 S. Ct. 749 (2005); 15 U.S.C. §1114(1)(a). For purposes of the Lanham Act, a mark is used in commerce on services "when it is used or displayed in the sale or advertising of services and the services are rendered in commerce, or the services are rendered in more than one State or in the United States and a foreign country and the person rendering the services is engaged in commerce in connection with the services." 15 U.S.C. §1127. By using two disjunctives, the statute makes it clear that use *or* display is needed in sale *or* advertising. Clearly FragranceNet's Amendment alleges *use*, even if there is no *display*, and also alleges *advertising*, whether or not it results in a sale.

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[2] The terms "palming off" or "passing off" have been used by various courts to refer to at least three different and distinct types of unfair competition in violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a): (1) substitution of one brand of goods when another brand is ordered; (2) trademark infringement where the infringer intentionally meant to defraud and confuse buyers; and (3) trademark infringement where there is no proof of fraudulent intent, but there is a likelihood of confusion of buyers. *See*, 4 McCarthy on Trademarks and Unfair Competition §25.1 (4th Edition 2006).

The Second Circuit has not yet decided this issue. In the context of pop-up advertisements, where the defendant included the plaintiff's Web address in defendant's directory and, when plaintiff's address was selected, delivered a competitor's pop-up advertisements to Internet users who accessed the plaintiff's Web site, the court reversed the district court's grant of a preliminary injunction holding that there was no "use in commerce" of plaintiff's mark. *1-800 Contacts, Inc.*, at 412-13. First, the court regarded the inclusion of the plaintiff's Web address in the defendant's directory as an internal, non-trademark use; second, the court did not consider the pop-up ads for a competitor's products superimposed over the plaintiff's Web site to be a "use" of the plaintiff's mark; and third, the court noted that the directory triggered a pop-ad based on access to the plaintiff's Web address, not to its trademark. *Id.* at 409-10. Finally, the court expressly distinguished the conduct of the defendant there from the sale of keyword advertising by search engines and their customers, and left a determination of the legal ramifications of such activity to another day. *Id.* at 411-12.

Despite that disclaimer by the Court of Appeals, two district courts within this Circuit have addressed keyword advertising as if it were the same as and controlled by the *1-800 Contacts* decision and concluded, without any factual development and virtually no record, that the purchase of keywords is not a "use" within the meaning of the Lanham Act. *See Merck & Co., Inc. v. Mediplan Health Consulting, Inc.*, 425 F. Supp. 2d 402 (S.D.N.Y. 2006) and *Rescuecom Corp. v. Google, Inc.*, 456 F. Supp. 2d 393, 403 (N.D.N.Y. 2006). As explained more fully below, those cases are not controlling and, upon any analysis, were wrongly decided.

**a. The 1-800 Contacts Case Did Not Address Keyword Advertising**

The Second Circuit's decision in *1-800 Contacts* involved pop-up ads: an internal unpublished directory of terms used to trigger the delivery of advertising. *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400 (2d Cir. 2005). The Second Circuit expressly distinguished pop-up advertisements from the keyword advertising scheme before this court, finding it significant that "WhenU's activities do not ... divert or misdirect [search engine users] away from [plaintiff's] website, or alter in any way the results a [search engine user] will obtain when searching with the [plaintiff's] trademark." *Id.* at 410.[3] The Second Circuit also distinguished the defendant's internal use to trigger a "pop-up" advertisement from the actions of "several other internet advertising companies," such as Google, that " 'sell' keyword trademarks to ... customers." *Id.* at 411. In addition, the Second Circuit specifically noted that pop-up ads are distinguishable from Google's AdWords scheme because "WhenU does not ... permit [advertising clients] to request or purchase specified keywords" *Id.* at 409, and "does not link trademarks to any particular competitor's ads, and a customer cannot pay to have its pop-up ad appear on any specific website or in connection with any particular trademark." *Id.* at 411. Finally, the pop-up ads at issue were generated in connection with a software program that the user consented to download. *Id.* at 404. Thus, the conduct that FragranceNet complains of here is fundamentally different from that presented to the Second Circuit on an incomplete record in *1-800 Contacts*.

**b. The Southern And Northern District Cases Are Not Binding Authority and Should Be Limited To Their Facts**

In *Merck & Co., Inc. v. Mediplan Health Consulting, Inc.*, 425 F. Supp. 2d 402 (S.D.N.Y. 2006) (granting motion to dismiss) and 2006 WL 1418616 (S.D.N.Y. May 24, 2006) (denying request for reconsideration), the court granted defendants' motion to dismiss trademark infringement claims

[3] Similarly, the New Jersey district court in *800-JR Cigar, Inc. v. GoTo.com, Inc.*, 437 F. Supp. 2d 273 (D.N.J. 2006) specifically distinguished the practice of giving prominence in search results to the highest bidder from the pop-up advertising cases like *1-800-Contacts.* "Such use," the court observed, "is qualitatively different from the pop-up advertising context, where the use of trademarks in internal computer coding is neither communicated to the public nor for sale to the highest bidder." *Id.* at 285.

predicated on keyword advertising. The defendants were sellers of generic prescription drugs that "purchased from Internet search engine companies Google and Yahoo! the right to have their websites displayed among the first results returned, as Sponsored Links, when a consumer user conducts a search for the keyword 'ZOCOR'." *Id.* at 415. Quoting language from *1-800 Contacts,* the court found that the use of the mark ZOCOR to trigger the display of advertising was merely an "internal use" and was "not use of the mark in a trademark sense." *Id.* at 415. However, the court expressly noted that "it is significant that defendants actually sell Zocor ... on their websites." *Id.* at 415-16. "Under these circumstances," the court concluded, "there is nothing improper with defendants' purchase of sponsored links to their websites from searches of the keyword 'Zocor.' " *Id.* at 416. Thus, a significant fact in the *Merck* case was the fact that the defendant sold ZOCOR, which also was the keyword that it purchased. A consumer looking for ZOCOR found it on the defendants' Web site. By stark contrast, FragranceNet is the name of plaintiff's business Web site. A consumer who types "fragrance net" into a keyword search is looking for plaintiff, not a particular product as was the case in *Merck*. FRAGRANCENET is not the brand of any product and cannot be found anywhere but as the name of Plaintiff's Web site.

In *Rescuecom Corp. v. Google, Inc.*, 456 F. Supp. 2d 393 (N.D.N.Y. 2006), the plaintiff sued Google over its practice of allowing advertisers, including the plaintiff's competitors, to bid on advertising keywords that would trigger Sponsored Links when an Internet user entered those keywords as search terms. Although acknowledging that the Second Circuit had not yet determined whether that practice constitutes trademark infringement and that several district courts had reached divergent conclusions, the court granted defendant's motion to dismiss the trademark claims. The court found that Google's advertising program did not constitute "use in commerce" of the plaintiff's mark because "there is no allegation that defendant places plaintiff's trademark on any goods, containers, displays, or advertisements, or that its internal use is visible to the public." *Id.* at

403. That case addressed the party that *sold* the keyword, not, as here, the party that *bought* the keyword thereby making it available to consumers who were searching for the plaintiff.

More recently, the Northern District of New York issued another decision on a similar, but not identical, issue regarding keyword advertising. In *Hamzik v. Zales Corp.*, No. 3:06-cv-1300, 2007 WL 1174863 (N.D.N.Y. Apr. 19, 2007), plaintiff, the owner of the registered trademark "THE DATING RING" commenced an action against Zales for, among other things, trademark infringement based on its purchase of the keyword term "dating rings" from various search engines. Defendant moved to dismiss the complaint on the ground that that plaintiff failed to allege legally sufficient trademark use by defendant. The court refused to dismiss the case and found the situation distinguishable from the *Merck* and *Rescuecom* cases because searches run on Google's and Yahoo's search engines for "dating rings" returned results that displayed "Dating Rings-Zales" and "Dating Ring-Zales," respectively, and therefore found that there may be facts demonstrating that plaintiff's trademark appears on the displays associated with the goods or documents associated with the goods or their sale. *Id.* at *3. The court further found that "these facts also serve to distinguish this case from *1-800 Contacts,* wherein the Second Circuit noted that there was no Lanham Act use because, among other things, the defendant in that case never caused the trademarks to be displayed to a computer user, the trademarks as used in the defendant's system could not be seen or accessed by a computer user or the general public, and an advertisement could not be triggered by a computer user's having entered the trademark into the search function." *Id.* at *3. That analysis misapprehends the law of trademarks. *See, e.g., Bristol-Myers Co. v. R.H. Macy & Co.*, 151 F. Supp. 513 (S.D.N.Y. 1957) (finding that defendant engaged in passing off in violation of the Lanham Act where it substituted its product for plaintiff's when customers specifically asked for plaintiff's product).

### 2. Courts in other Circuits have Uniformly Determined that Defendant's Conduct Constitutes "Use In Commerce" Under the Lanham Act.

To date, the majority of courts that have considered whether the purchase and sale of trademarks in connection with keyword advertising constitute "use in commerce" thereby rendering it actionable under the Lanham Act decided that it is, including the Court of Appeals for the Ninth and Tenth Circuits and district courts in Minnesota, New Jersey, Pennsylvania, Illinois, and Georgia.

#### a. The Ninth Circuit

In *Playboy Enterprises, Inc. v. Netscape Commc'ns Corp.*, Playboy alleged that two search engines committed trademark infringement by selling Playboy's trademarks as keywords to advertisers that wanted their ads to appear on the search results page when Playboy's trademarks were used as the search terms by consumers. Civ. Nos. SACV 99-320 AHS EEX, SACV 99-321 AHS EEX, 2000 WL 1308815 (C.D.Cal. Sept. 13, 2000). None of the ads in question displayed Playboy's marks or used them in the ad text. *Id.* at *1. As is the case here, Playboy's marks were the triggering mechanism for the advertisers' unlabeled advertisements. *Id.* Under the mistaken belief that "Defendants do not use [Playboy's] trademarks *qua* trademarks," the district court granted the search engines' motion for summary judgment. *Id.*

The Ninth Circuit reversed, holding that the search engines had indeed engaged in a "trademark use" of Playboy's marks and that Playboy had established a genuine issue of material fact regarding the infringement and dilution of those marks. *Playboy Enters., Inc. v. Netscape Commc'ns Corp.*, 354 F.3d 1020 (9th Cir. 2004). Applying the well-established "initial interest confusion" doctrine, the court had no difficulty finding that "defendants used the marks in commerce," and, further, that the "use in commerce" requirement for purposes of bringing such a claim under the Lanham Act "sweeps as broadly as possible." *Id.* at 1024 and n.11. Considering plaintiff's claims of infringement, the court found "some consumers, initially seeking PEI's sites, may initially believe that unlabeled banner advertisements are links to PEI's sites or to sites affiliated with PEI.... The

Internet user will have reached the site because of defendants' use of PEI's mark. Such use is actionable." *Id.* at 1025-26. The Ninth Circuit specifically addressed, and rejected, the argument that the Lanham Act did not apply because the search engines did "not label their own goods with [Playboy's] marks." *Id.* at 1033. *A fortiori*, FragranceNet does not sell goods under its own name. Consumers that type in FragranceNet's name are looking for FragranceNet.

In *Google Inc. v. American Blind & Wallpaper Factory, Inc.*, No. C03-05340JF, 2005 WL 832398 (N.D.Cal. Mar. 30, 2005), the Northern District of California denied Google's motion to dismiss counterclaims that had accused it of trademark infringement based in part on its practice of selling American Blinds trademarks as advertising keywords to American Blinds' competitors. *Id.* at *9. In so doing, that court noted that, as to the question of whether the act in question constituted "use" of the plaintiff's marks, for Lanham Act purposes, it created "novel legal questions ... that should await the development of a full factual record." *Id.* at *6. More recently, in the same action, Google moved for summary judgment "ask[ing] the Court to declare that, as a matter of law, Google's sale of trademarked keywords in its AdWords program does not constitute use in commerce under the Lanham Act." *Google, Inc. v. American Blind & Wallpaper Factory, Inc.*, No. C 03-5340 JF (RS), 2007 WL 1159950, at *2 (N.D. Cal. Apr. 18, 2007). In denying Google's motion in part, the *American Blinds* court held that "the sale of trademarked terms in the AdWords program is a use in commerce for the purposes of the Lanham Act." *Id.* at *6. In so holding, the court based its conclusion on the same rationale relied on by the courts in "*GEICO*, *800-JR Cigar*, *Humble Abode*, *Edina Realty* and *Wentworth*" (all of which are addressed in this memorandum) and explained that while "the Second Circuit's *1-800 Contacts* and the subsequent district court decisions [*Merck* and *Rescuecom*] may cause the Ninth Circuit to consider this issue explicitly, the lengthy discussions of likelihood of confusion in *Brookfield* and *Playboy* would have been unnecessary in the absence of actionable trademark use." *Id.*

**b. The Tenth Circuit**

In *Australian Gold, Inc. v. Hatfield*, 436 F.3d 1228 (10th Cir. 2006), the plaintiff complained that a rival tanning salon was using its marks by paying "[search engine Overture.com] for [a premium listing] guaranteeing that one of Defendant's Web sites would be among the first three listed if either of Plaintiff's trademarks was used in an Internet search query." *Id.* at 1233. The Tenth Circuit rejected the notion that this was not use of a trademark. Applying the initial interest confusion doctrine, the court held that the defendants, having purchased a variant of keyword advertising, were liable for trademark infringement:

> Defendants paid Overture.com to list Defendants in a preferred position whenever a computer user searched for Plaintiffs' trademarks. All of these actions were attempts to divert traffic to Defendants' Web sites. ... Thus, Defendants used the goodwill associated with Plaintiffs' trademarks in such a way that consumers might be lured to the lotions from Plaintiffs' competitors. This is a violation of the Lanham Act.

*Id.* at 1239.

**c. Eastern District of Virginia**

After the *Playboy Enterprises, Inc. v. Netscape Commc'ns Corp.*, 354 F.3d 1020 (9th Cir. 2004) decision by the Ninth Circuit, the Eastern District of Virginia was among the first courts to discuss "use in commerce" as it applied to a claim for trademark infringement in the context of keyword advertising. In *Gov't Employees Insurance Co. v. Google, Inc.*, 330 F. Supp. 2d 700 (E.D. Va. 2004), the plaintiff Government Employees Insurance Co. ("GEICO") sued Google and Overture Services, Inc., both of which were Internet search engine operators, for, among other things, trademark infringement based on their practices of selling plaintiff's trademark as a keyword to trigger Sponsored Links for the keyword advertisers' Web sites. *Id.* at 701. In its complaint, GEICO alleged that defendants sell advertising linked to search terms, so that when a consumer enters a particular search term, the results page displays not only a list of Web sites generated by the search engine program using neutral and objective criteria, but also links to Web sites of paid advertisers.

*Id.* at 702. GEICO further alleged that such conduct also contributes to third parties' violating the Lanham Act. *Id.* The court denied Google's motion to dismiss and held that Google's conduct of allowing advertisers to bid on keywords, including the plaintiff's trademarks, and to pay for the right to have their sites returned as Sponsored Links satisfied the Lanham Act's "use in commerce" requirement. *Id.* at 704. In so holding, the court provided the following rationale:

> Under the analysis in [*Playboy Enterprises, Inc. v. Netscape Commc'ns Corp.*, 354 F.3d 1020 (9th Cir. 2004)], defendants' offer of plaintiff's trademarks for use in advertising could falsely identify a business relationship or licensing agreement between defendants and the trademark holder. In other words, when defendants sell the rights to link advertising to plaintiff's trademarks, defendants are using the trademarks in commerce in a way that may imply that defendants have permission from the trademark holder to do so. This is a critical distinction from the U-Haul case [*U-Haul Int'l, Inc. v. WhenU.com, Inc.*, 279 F.Supp.2d 723 (E.D.Va. 2003), finding no "use in commerce" in the context of pop up advertisements], because in that case the only "trademark use" alleged was the use of the trademark in the pop-up software – the internal computer coding. WhenU allowed advertisers to bid on broad categories of terms that included the trademarks, but did not market the protected marks themselves as keywords to which advertisers could directly purchase rights.

*Id.* at 704. The court also found that GEICO alleged sufficient facts to establish a claim for contributory infringement based on the advertisers' Lanham Act violations:

> Plaintiff further alleges that under theories of contributory and vicarious liability, defendants are liable when the advertisers themselves make "trademark use" of the GEICO marks by incorporating them into the advertisements, which are likely to deceive customers into believing that the advertisers provide accurate information about GEICO products or are somehow related to GEICO. Plaintiff also alleges that defendants exercise significant control over the content of advertisements that appear on their search results pages, and accordingly defendants are liable for Lanham Act violations by the advertisers. Accepting as true the facts alleged by plaintiff regarding the inclusion of the marks in advertisements and defendants' overall control of their advertising program, we find that plaintiffs have alleged facts sufficient to support their claims that advertisers make a "trademark use" of GEICO's marks, and that defendants may be liable for such "trademark use."

*Id.* at 704.

**d. District of Minnesota**

In *Edina Realty v. TheMLSOnline.com*, No. CIV 04-4371, 2006 WL 737064 (D. Minn. Mar. 20, 2006), the court expressly considered the issue of whether a competitor's purchase and use of another's trademark as a keyword on the Google and Yahoo! search engines was an actionable "use in commerce" under the Lanham Act. *Id.* at *3. The defendant claimed it was not engaged in "use" under the Lanham Act because there was "no public promotion of the mark during the search transaction." *Id.* (citation omitted). The court flatly rejected that argument:

> While not a conventional 'use in commerce,' defendant nevertheless uses the Edina Realty mark commercially. Defendant purchases search terms that include the Edina Realty mark to generate its sponsored link advertisement. Based on the plain meaning of the Lanham Act, the purchase of search terms is a use in commerce.

*Id.* Nor did the court have any difficulty finding a likelihood of confusion: "it is undisputed that defendant uses a mark identical to plaintiff's by purchasing Edina Realty as a search term, placing it in the text of its sponsored link, and placing it in hidden text and links." *Id.* at *5.

**e. District of New Jersey**

In yet another case involving keyword advertising, in *800-JR Cigar, Inc. v. GOTO.com, Inc.*, 437 F. Supp. 2d 273 (D.N.J. 2006), the district court found that the search engine "GoTo.Com" violated the Lanham Act by profiting from the unauthorized sale of JR Cigar's trademarks to its competitors and diverting Internet users seeking to find JR Cigar to its rivals. *Id.* at 280. The court specifically found that GoTo's advertising program was "use in commerce" under the Lanham Act:

> GoTo makes trademark use of the JR marks in three ways. First, by accepting bids from those competitors of JR desiring to pay for prominence in search results, GoTo trades on the value of the marks. Second, by ranking its paid advertisers before any "natural" listings in a search results list, GoTo has injected itself into the marketplace, acting as a conduit to steer potential customers away from JR to JR's competitors. Finally, through the Search Term Suggestion Tool, GoTo identifies those of JR's marks which are effective search terms and markets them to JR's competitors.

437 F. Supp. 2d at 285. Accordingly, the court concluded that GoTo was "making trademark use of JR Cigar's trademarks." *Id.*

Similarly, the purchase of plaintiff's descriptive trademark as a keyword (but not used in ad text) in connection with Google's Adwords program was at issue in *Buying For The Home LLC v. Humble Abode LLC,* 459 F. Supp. 2d 310 (D.N.J. 2006). Although the court acknowledged that the "[d]efendants' alleged use of [p]laintiff's mark is certainly not a traditional 'use in commerce,' " it nonetheless found that "[p]laintiff has satisfied the 'use' requirement of the Lanham Act." *Id.* at 323. The court reached that conclusion for two reasons:

> First, the alleged purchase of the keyword was a commercial transaction that occurred "in commerce," trading on the value of Plaintiff's mark. Second, Defendants' alleged use was both "in commerce" and "in connection with any goods or services" in that Plaintiff's mark was allegedly used to trigger commercial advertising which included a link to Defendants' furniture retailing website.

*Id.* at 323.

**f. Eastern District of Pennsylvania**

In *J.G. Wentworth, S.S.C., LP v. Settlement Funding LLC,* Civil Action No. 06-0597, 2007 WL 30115 (E.D.Pa. Jan. 4, 2007), the Court held, in relevant part, that the defendant's participation in Google's AdWords program – even though the trademarks were not used in defendant's ad text – and the defendant's incorporation of the plaintiff's marks in its keyword metatags constituted trademark "use" under the Lanham Act. In so holding, the court stated "by establishing an opportunity to reach consumers via alleged purchase and/or use of a protected trademark, defendant has crossed the line from internal use to use in commerce under the Lanham Act." *Id.* at *6.

**g. Northern District of Illinois**

In *Int'l Profit Assocs., Inc. v. Paisola,* 461 F. Supp. 2d 672 (N.D.Ill. Nov. 14, 2006), the Northern District of Illinois issued a temporary restraining order enjoining defendants from, among other things, "using terms trademarked by IPA, including the terms 'International Profit Associates,' 'IPA' or 'IBA,' as keywords for any internet advertising service, including services run by Google or Yahoo." *Id.* at 680. In concluding that "defendants are using terms trademarked by IPA as search terms [but not in ad text] in Google's Adwords program in a manner likely to cause confusion," *id.* at 677, and finding that such use constituted "use in commerce" under the Lanham Act, the court explained that "[t]he law in the Seventh Circuit is silent on whether the use of a trademark as a keyword in an online search program such as Google's Adwords is a use 'in commerce' under the Lanham Act as required to establish a claim, but other courts have determined that purchasing a trademarked term as a 'keyword' for Google's Adwords program meets the Lanham Act's use requirement." *Id.* at 677, n. 3 (citing *Buying for the Home, LLC v. Humble Abode, LLC*, No. 03-cv-2783, 2006 WL 3000459, at *7-8 (D.N.J. Oct. 20, 2006) (surveying cases)).

**h. Northern District of Georgia**

In a case involving the same plaintiff that was before the court in the Northern District of New York, but coming to an opposite result, the court in *Rescuecom Corp. v. Computer Troubleshooters USA, Inc.*, No. CIVA 104CV03499-JEC, 2005 WL 4908692 (N.D. Ga. Sept. 16, 2005) declined to dismiss a claim for trademark infringement based on a competitor's purchase of plaintiff's trademark as a trigger for its keyword-linked advertising on Internet search engines. *Id.* at *3. The court held that the question of whether trademark infringement occurs when an Internet search engine uses a trademarked term to generate "Sponsored Links" appears to be an open question in the Eleventh Circuit and presented novel legal questions that should await the development of a full factual record, rather than be resolved on the defendant's motion to dismiss. *Id.* The parties settled the case before the court had the opportunity to provide any further guidance on the issue.

**3. The "Use In Commerce" Element Applies Only To FragranceNet's Lanham Act Claims**

Plaintiff should be permitted to amend its complaint to add its proposed state law claims that do not require a showing of "use in commerce." The allegations FragranceNet has made in support of its remaining claims for passing off,[4] state law dilution,[5] injury to business reputation,[6] common law unfair competition, misappropriation,[7] unjust enrichment,[8] all would withstand a motion to dismiss.

## IV. CONCLUSION

This is not a motion to dismiss or a motion for summary judgment. The question before the court is not whether FragranceNet is likely to prevail on its claims. The sole issue before this Court is whether FragranceNet has pleaded a sufficient claim so that it should be granted leave to amend its complaint. Given the developing body of law on the issue of keyword advertising, FragranceNet respectfully requests this Court to grant its motion in its entirety for leave to file its Third Amended Complaint and to permit the parties to develop a complete factual record.

Dated: New York, New York
May 4, 2007

Robert L. Sherman (RS 5520)
75 East 55th Street
New York, New York 10022
(212) 318-6000

Rebecca K. Myers (RM 8437)
75 East 55th Street
New York, New York 10022
(212) 318-6000

*Attorneys for Plaintiff*
FRAGRANCENET.COM, INC.

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[4] *See* footnote 2, supra; *Bristol-Myers Co. v. R.H. Macy & Co.*, 151 F.Supp. 513, 513 (S.D.N.Y. 1957).

[5] The elements of a claim for state law dilution are: (1) the existence of a distinctive mark capable of being diluted and (2) a likelihood of dilution. *Savin Corp. v. Savin Group*, 391 F.3d 439, 455 (2d Cir. 2004).

[6] The elements of a claim for injury to business reputation are the same as those required for a claim for state law dilution. *See Savin Corp.*, 391 F.3d at 455.

[7] The elements of a claim for common law unfair competition and misappropriation are the bad faith misappropriation of plaintiff's labors and expenditures which are likely to cause confusion or to deceive purchasers as to the origin of the goods. *Jeffrey Milstein, Inc. v. Gregor, Lawlor, Roth, Inc.*, 58 F.3d 27, 34 (2d Cir. 1995).

[8] The elements of a claim for unjust enrichment are: (1) that the defendant benefited; (2) at the plaintiff's expense; and (3) that equity and good conscience require restitution. *Beth Israel Med. Ctr. v. Blue Cross and Blue Shield of N.J., Inc.*, 448 F.3d 573, 586 (2d Cir. 2006).

## CERTIFICATE OF SERVICE

The undersigned, a member of the Bar of this Court, hereby certifies that she has caused to be served via overnight mail a true and correct copy of the foregoing FRAGRANCENET'S MEMORANDUM OF LAW IN SUPPORT OF ITS MOTION FOR LEAVE TO FILE ITS THIRD AMENDED COMPLAINT on this 4th day of May, 2007, on the following counsel of record:

David Rabinowitz, Esq.
Moses & Singer LLP
405 Lexington Avenue
New York, New York 10174-1299

The above is the address designated by said attorneys for service.

Rebecca Myers

Rebecca K. Myers